

Investing in a Realpolitik World

Fullerton Investment Views – Quarterly Report

Q3 2025



FULLERTON
FUND MANAGEMENT



Author



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Executive summary

- **A Realpolitik world with goldilocks fundamentals makes active management critical.**
 - **It's a disruptive re-globalisation** - the challenge for investors is to continue to dismiss phobias, rebuild risk appetite, and recognise that fundamentals are strong and improving across many countries - delivering 'a great global convergence'.
 - **We have six investment themes and 'winners' are a common denominator.**
 - **Because the core drivers of investment rewards have not changed** - productivity, (market) power, and profits.
 - **Seeking exceptionalism is a global exercise** as investment returns across Europe and Asia, often judged laggards, are much stronger, while returns are rising significantly for the US.
- **For the next 12 months, Fullerton is bullish on global risk assets, driven by Asia (i.e China, Singapore, South Korea, Taiwan) and Developed Market (i.e US, Germany, and Japan) equities, with a positive outlook for fixed income returns¹.**

1. Views may be subject to change without prior notice.



01

Investment Environment and Risk-Asset Outlook

Goldilocks fundamentals across a Realpolitik world makes active management critical

A disruptive re-globalisation of trade and capital flows continues to unfold, and as a result, investing in this 'Realpolitik²' world makes active asset management more important than ever. As Fullerton anticipated, acute stagflation and recession fears have faded, strong fundamentals have reasserted themselves (i.e productivity, competitiveness, liquidity, and investment) and markets have moved to successfully scale a 'wall of worries'.

The challenge for investors is to continue to dismiss phobias, recognise that fundamentals are strong and improving across many countries, and rebuild confidence. Because the core drivers of investment rewards remain finding the most profitable companies which tend to be very productive with tangible market power. Seeking exceptional companies, at a fair price, is a global exercise as equity returns across Europe and Asia, often judged laggards, are much stronger, while returns are rising significantly for the US.

For the next 12 months, Fullerton is bullish on global risk assets, driven by Asia and Developed Market (DM) equities, with a positive outlook for fixed income returns

Summary of Fullerton's Views (12 months ahead)

	Bearish	Negative	Positive	Bullish
Risk Assets (overall)				√
Developed Market Equity				√
Asia ex-Japan Equity				√
Global Sovereign Bonds			√	
Asia IG Credit			√	

Source: Fullerton Fund Management, July 2025. Views may be subject to change without prior notice.

2. That is where politics tends to be dominated by strong-willed 'self-first' foreign policy.

We believe DM equities can continue to benefit from robust earnings growth, with positive contributions from the US, Europe and Japan. The US is sustaining one of the strongest productivity performances in the world³, while its real unit production costs are falling, which has pushed corporate profits to record-highs⁴. Alpha is back for investors from US IT, and alpha remains robust across Industrials, Financials, and Communications. Such resilient fundamentals, combined with easy liquidity conditions, may drive further re-rating of US equity returns.

Consistent with 'sector winners' being found across different countries, bullish returns across Europe are also being driven by Industrials, Financials, and Utilities - all part of the positive sentiment on Germany's infrastructure stimulus and productivity rebuild. Japan's market can also remain a robust source of alpha for investors, as the corporate sector continues to build significant competitiveness.

We first suggested in Q4 2024 that China's stimulus could unfold as the 'whatever it takes moment' for investors because the supports are so large and they target key areas of deflation to help boost corporate profitability⁵. With the passage of time there may now be too much credibility at stake for 'policy failure' to be acceptable. As a result, China's policymakers are further embracing 'anti-involution' and gaining traction with the reform-driven fight against diminishing returns from investment and resources.

Fullerton expects equity returns to remain strong across China, Taiwan, South Korea, and Singapore, as Asia benefits from China's stimulus spillovers, rising export prices and competitiveness, strong demand from DM and increasing intra-Asia trade (especially for higher value-added goods and services).

Our positive view for returns from global sovereign bonds continues to reflect the prospect that yields settle at levels generating favourable income-streams. Returns from corporate credit can remain positive as default rates should be contained with robust profitability and global growth around trend.

3. Details on this discussion are in [Fullerton Investment Views Q1 2025](#). Source quoted within: 'Investing in Productivity Growth' by McKinsey (March 2024).

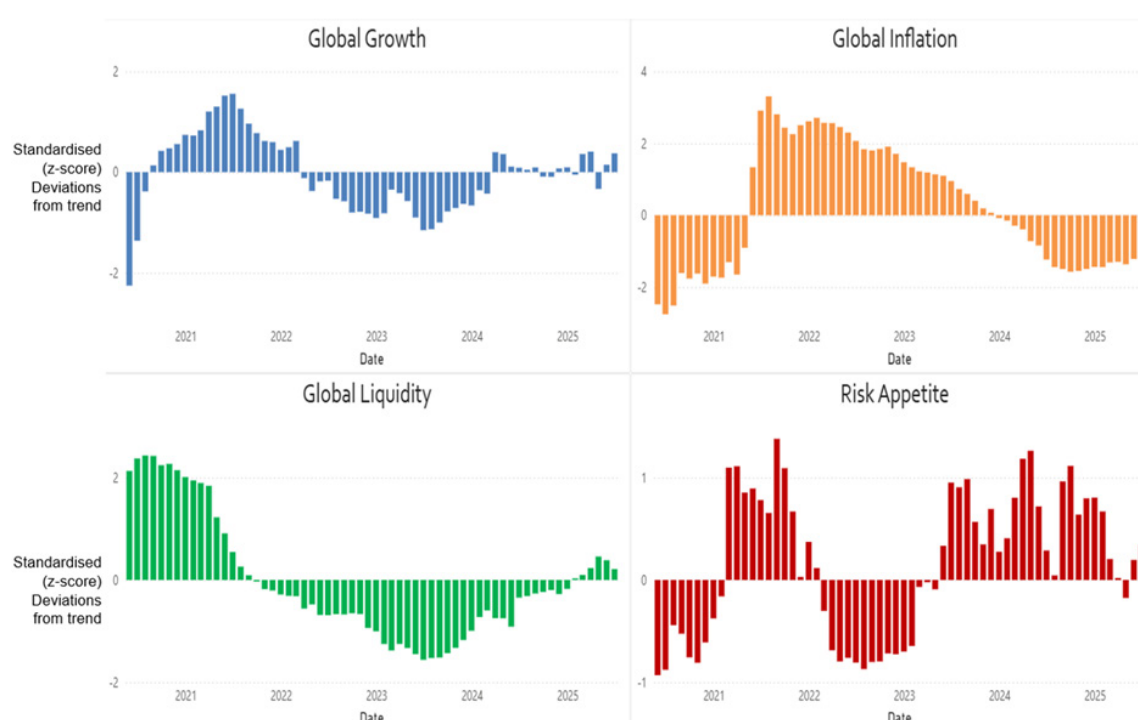
4. US corporate profits (as a share of GDP) are among the highest in the world and around the strongest in 75 years of data. Source: LSEG 29 July 2025.

5. We have a short research note on [Key reasons to be bullish on China - Fullerton Fund Management](#). For further background also see [Fullerton Investment Views Q4 2024](#) and [Asia ex-Japan equity outlook: from positive to bullish - Fullerton Fund Management](#)

Fullerton's Investment Environment Indicator is in 'Goldilocks' which means strong returns can potentially be achieved

Global growth is around trend and we believe it can sustain that⁶, especially as liquidity is also robust (see Figure 1). Inflation is likely to rise further this year as tariff impacts bite, but not to levels that become a significant nor sustained threat to markets. Global investor risk appetite can continue to improve and there is significant upside potential ahead until it normalises. Collectively, the economic environment signals solid earnings growth ahead, with some modest re-rating potential, which is bullish for equities while fixed-income investors should benefit from yield stability giving better returns than the past.

Figure 1: Fullerton's global factors that drive investment returns



Source: Fullerton Fund Management, July 2025. These global macro factors of growth, inflation, liquidity, and risk appetite, are constructed by Fullerton and expressed as standardised z-score deviations from trend (or average). In turn, they impact the signal from our Investment Regime Model. The information presented in the graphs above are calculated based on Fullerton's internal methodology and subject to changes. Past performance is not indicative of future returns.

6. US nominal GDP growth nowcasts are tracking around 5%YoY, along with realised nominal growth in Japan (5.1%YoY Q125) and the EMU (3.8%YoY Q125). China's real GDP growth continues to track above policymakers' 5% p.a target. Source: LSEG, 29 July 2025.

Figure 2: Fullerton’s Investment Environment Indicator with the Goldilocks Return Distribution



Source: Fullerton Fund Management, July 2025. The Investment Regime Model is calculated based on Fullerton’s internal methodology and is subject to change. Past performance may not necessarily be indicative of future performance. The right-hand side bar chart of potential risk asset returns under a Goldilocks Regime is the 6mth rolling return (%pts) based on the interquartile range of outcomes for the USD dollar (DXY Index), the MSCI AC World Index (equity returns), and the BB Global Aggregate Bond Index (fixed income / bond returns).

Global trade restrictions and tariffs are not expected to derail risk asset returns

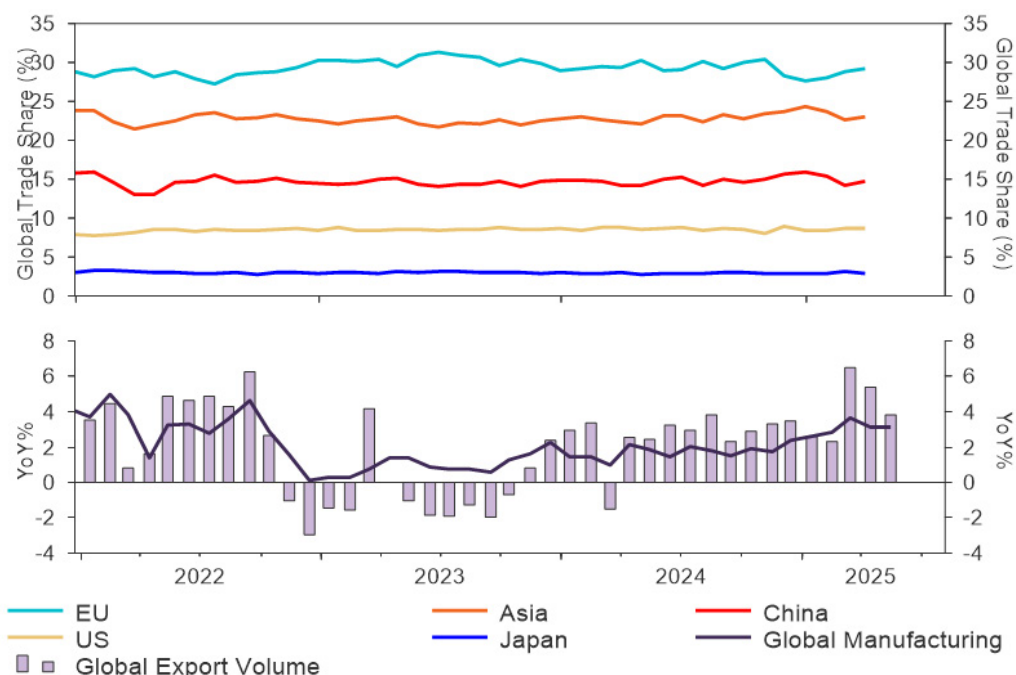
Tariff negotiations and trade deals with the US have continued and some countries have found scope to secure favourable outcomes⁷. We maintain our view that global trade restrictions will not derail risk asset returns – because of on-going competitiveness gains, sustained demand for high-value added products, and expenditure switching⁸.

7. Notably Europe, Japan, South Korea, the UK, Vietnam, Indonesia, and the Philippines. In contrast, negotiations with India so far suggest a less favourable deal than peers (as at 31 July). President Trump has kept much of what the US needs to import as cheap as possible - with low tariffs (i.e 15% or less on average, with some zero-rated products for Americas trade) across the Americas, the UK, Australia, ASEAN, Japan, and Europe.
8. See [Fullerton Investment Views Q4 2024](#) and [Impact from Trump 2.0 tariffs - Fullerton Fund Management](#). We also believe any tariff-driven surge in US import prices may only have a transitory impact on inflation as inflation expectations are contained, as consumers adjust their spending patterns to competitive alternatives, and as very low unit production costs will give significant offset to any inflation upside. Such views were the basis for Scott Bessent’s comment that “tariffs can’t be inflationary” Source: CNN, 25 Nov 2024.

Global trade volume growth is strong, supported by the steady improvement in industrial production, and global trade shares are being defended (see Figure 3). In fact, the global trade shares for the EU, China, and Asia have had a small bump-up.

Figure 3: Global trade and manufacturing performance

Global Trade Shares, Exports and Manufacturing Production



Source: LSEG Datastream, July 2025.

Nevertheless, some investors continue to worry that lags will be long and significant stresses will eventually hit. In contrast, we believe producers and consumers remain forward-looking, are not naïve, and are well-advanced in adapting their behaviours to this re-globalisation of trade flows.

The largest remaining free-trade bloc in the world is Asia centric and led by China

All of Asia will continue to deepen its economic linkages beyond the US with supports from the Regional Comprehensive Economic Partnership (RCEP)⁹. China has already cut its US trade dependence to extreme lows and has defended its global trade share at the same time. China is benefitting from its rising export prices, exchange rate competitiveness, and its significant global market share - especially across products like rail, maritime, new energy, IT, medical, and robotics.

9. Effective since Jan 2022, the RCEP is the largest free-trade bloc in the world, comprising of 15 members and about 30% of global GDP. It is the first free trade agreement across China, Japan, South Korea, ASEAN, Australia, and NZ. Source: Enterprise Singapore, April 2025.



02

Equities

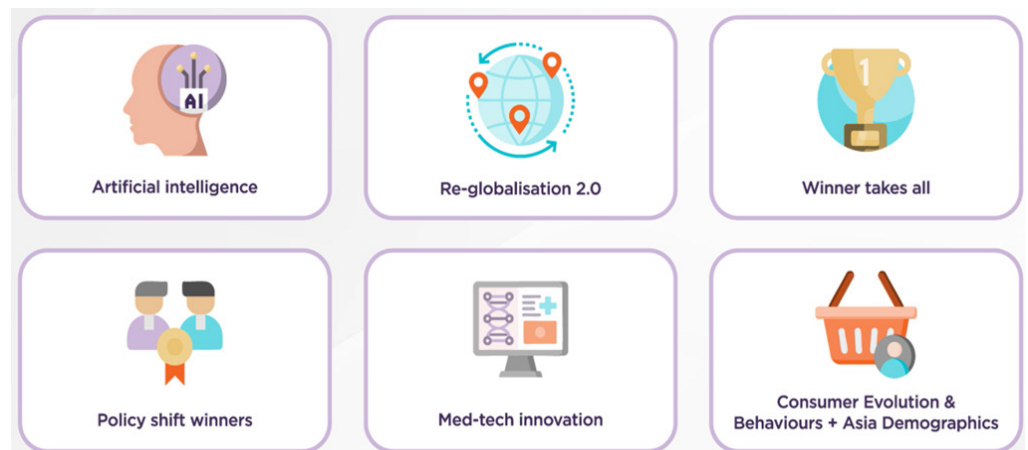


Dennis Lee
Head of Equities
Fullerton Fund Management

We have six investment themes relevant for a Realpolitik world

Building from our six global investment themes at the start of the year¹⁰ (see Figure 4) it is critical for investors to appreciate that finding alpha across a Realpolitik world will not be solely about US 'exceptionalism'. Firms rising to the top of their peer group will be driven by productivity-enhanced earnings, rising investment, and sustained demand. These creative leaders will be found across many different sectors and countries. That is why it is vital for investors to harmonise their top-down strategy with active management and stock selection

Figure 4: Fullerton's global investment themes



Source: Fullerton Fund Management, July 2025. Investment themes are developed from our internal methodology and are subject to change.

10. From [Fullerton Investment Views Q1 2025](#)

Across the thematic of **Artificial Intelligence (AI)** we have explained how investment opportunities may unfold directly from new technologies, as well as from spillover demand and innovation, across sectors like consumerism, industrialisation, healthcare (i.e our **Med-tech Innovation theme**), and finance¹¹. AI technologies and metaverse demands are an evolving process with different investment opportunities unfolding over the lifecycle.

Re-globalisation 2.0, Winner takes all, and Policy shift winners, are themes that are interrelated to some degree because shifts in supply-chains, and capital flows, will be disruptive but will also create winners. As some hurdles to global trade become more significant than the past, countries are also deploying stimulus and reforms to different degrees and with varying objectives (across productivity, on-shoring, defence, resources/intellectual capital, and finance).

For example, 'anti-involution' in China reflects the fight from policymakers against over-production and excessive capacity driving deflation and diminishing returns from resources¹². Germany is spending more to boost its infrastructure and productivity¹³, Japan is considering tax cuts¹⁴, and the US is trying to enhance its productivity further with tax relief for corporate spending on research and development (R&D). Against this backdrop of greater 'self-help', the most rewarding investment opportunities that unfold will likely be those driven by companies (and sectors) that are best able to remain productive and build market power with differentiated and higher value-added products and services.

Lastly, one of our most established investment themes is **Consumer Evolution**, as it reflects Asia's shifting demographics and rising middle-class incomes¹⁵. A key takeaway for investors is that markets with different levels of per capita income, across aging versus younger demographics, with differing penetration of technologies (in particular, across e-commerce platforms), can offer diversified and favourable alpha.

11. See [Investment opportunities in the age of Artificial Intelligence - Fullerton Fund Management](#) and [From 3G to the 3i's: Transitioning to innovation-led gains - Fullerton Fund Management](#)

12. We noted a year ago in [From 3G to the 3i's: Transitioning to innovation-led gains - Fullerton Fund Management](#) that despite headwinds for investors from 'involution' (one of our three 'i's) China's policymakers would continue reforms to combat involution and as a result favourable investment opportunities could be uncovered with active management. China has fiscal stimulus of 4.5% of GDP for 2025 (with about half spent already), and an additional 4.5% of GDP provisioned for that could be front-loaded if required, see: [Fullerton Investment Views Q4 2024](#) and [Asia ex-Japan equity outlook: from positive to bullish - Fullerton Fund Management](#)

13. Germany is deploying 1.2%p.a pts of GDP stimulus (until 2035) on infrastructure investment. This could lift Germany's structural growth rate above its current 1.2% p.a and toward 1.5-1.7% p.a primarily by jump-starting productivity growth (source: FFMC calculations).

14. Source: 17 July 2025, Reuters News.

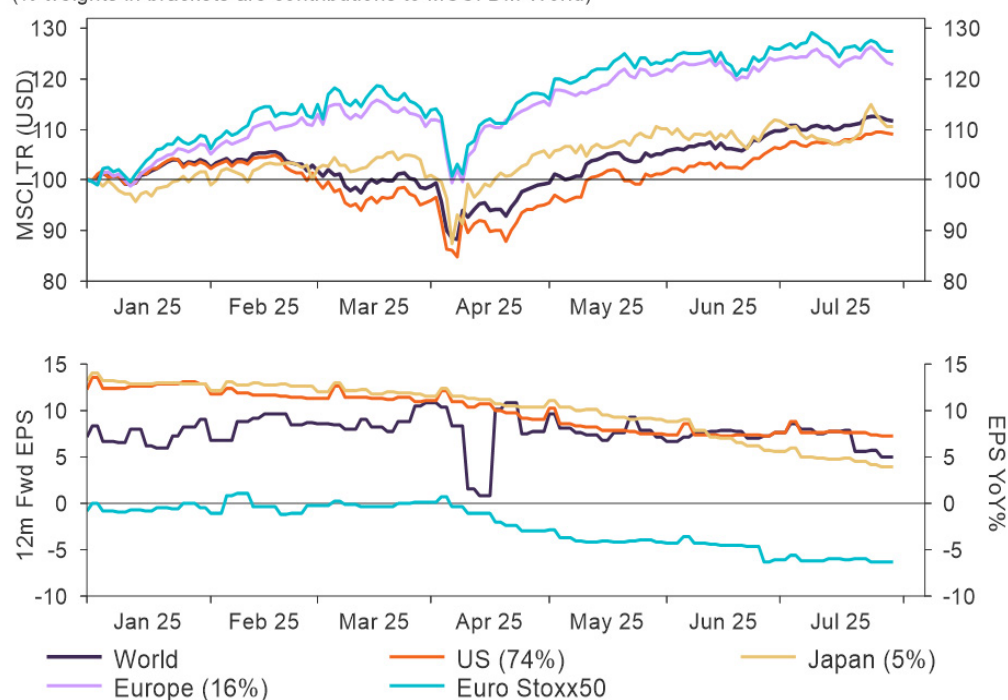
15. See [Fullerton's "Enduring structural themes to outlast the cyclicity of markets: from East to West" Jan 2023](#)

Our bullish outlook for Developed Market (DM) equity returns reflects solid contributions from the US, Europe, and Japan

Figure 5: Equity returns and 12mth forward earnings growth expectations for DM

MSCI World Equity Returns and Earnings (YTD)

(% weights in brackets are contributions to MSCI DM World)



Source: LSEG Datastream, July 2025.

The trend of US ‘exceptionalism’ can continue, but the US is not alone

Our bullish outlook for DM equities implies that US equities can end 2025 with at least a 10% gain (see Figure 5). We believe that the US can sustain around 5%p.a nominal GDP growth, and consistent with that earnings performance can remain strong. US earnings growth expectations for the 12mths ahead are back to leading DM (see Figure 5, bottom panel), and we believe there can be further upside toward double-digit growth¹⁶.

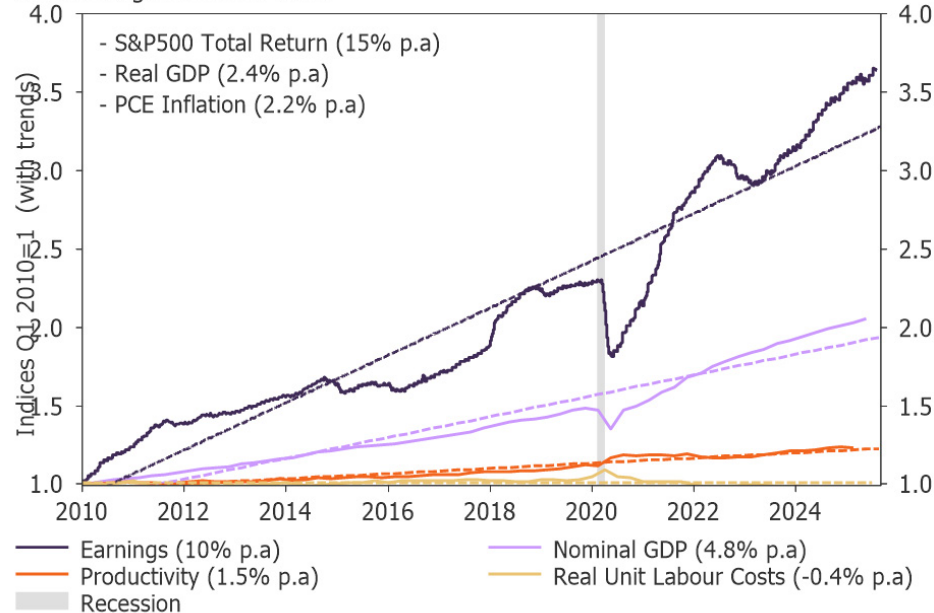
Strong performance can be driven by solid revenues from consumerism while robust productivity growth keeps unit labour costs very low (see Figure 6). Employment growth and high levels of US household financial wealth can continue to drive spending, while corporate investment is likely to become more positive and further boost rewards from technology and innovation.

16. The success of the current US Q2 earnings season illustrates that consensus expectations for US earnings performance remain too conservative. That is because at least 75% of all US firms have beaten (rising) earnings expectations since Q1 2023, which is now one of strongest periods on record. Source: LSEG, 29 July 2025.

Figure 6: US exceptionalism can continue: its key defining feature is that earnings growth is much stronger than GDP growth

US Earnings, GDP, Productivity, Labour Costs

With trend growth since 2010

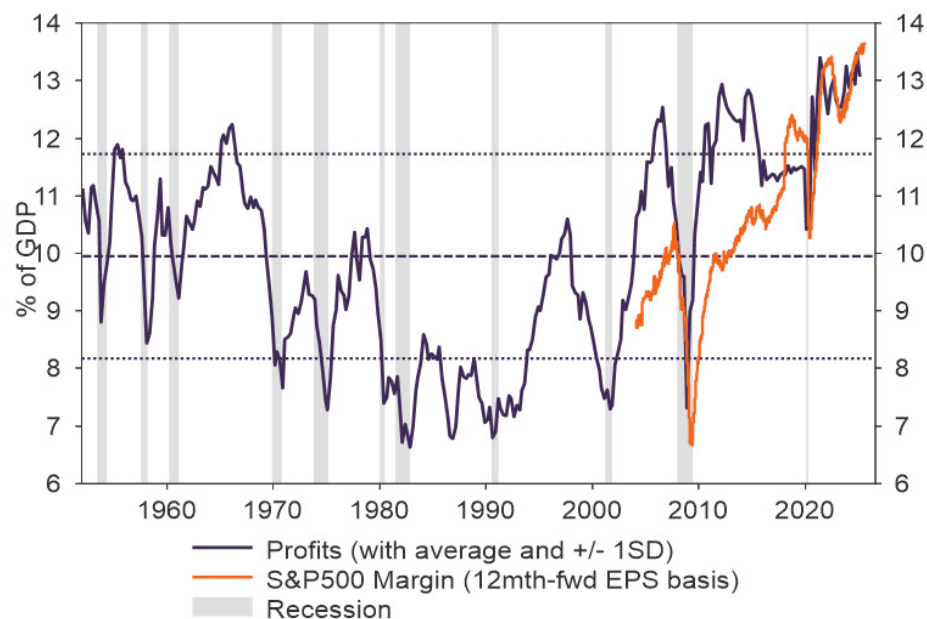


Source: LSEG Datastream, July 2025.

Simultaneously, record-high economy-wide profit (see Figure 7), strong money growth and easy liquidity conditions may drive some further modest re-rating of US equities. For the US, alpha from the IT sector is back, and remains robust across sectors we like i.e Industrials, Financials, and Communications (62% of the market. See Figure 8).

Figure 7: US corporate profits

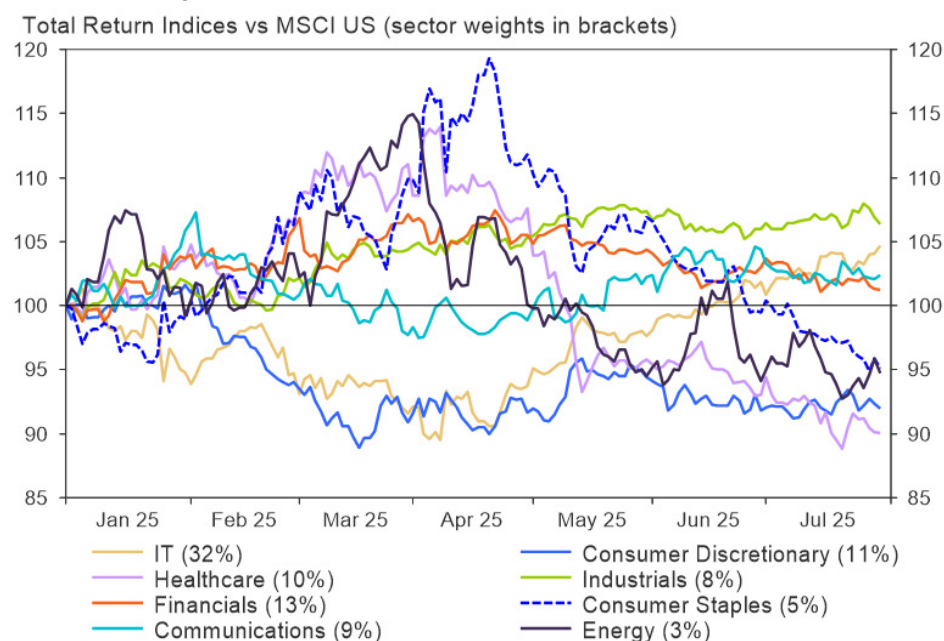
US Corporate Profits



Source: LSEG Datastream, July 2025.

Figure 8: Sources of alpha for investors across the US

Sources of alpha for investors across MSCI US



Source: LSEG Datastream, July 2025.

Elements of US fiscal stimulus that can be positive for US equities

President Trump's 'One Big Beautiful' Bill (4 July 2025¹⁷) makes the 2017 tax cuts permanent, has more spending on border security and the military, cancels some green-energy incentives, cuts and tightens eligibility for social-support programs.

The initiative that may prove the most positive for sustaining strong US corporate profitability, and potentially supporting the share market, are the new tax breaks/enhanced deductions – especially those allowing firms to fully-expense investment equipment and R&D. This can encourage more firms to invest in productivity-enhancing technology, which can boost earnings performance over time, without reducing current cash flow.

17. See [President Trump's One Big Beautiful Bill Is Now the Law – The White House](#)

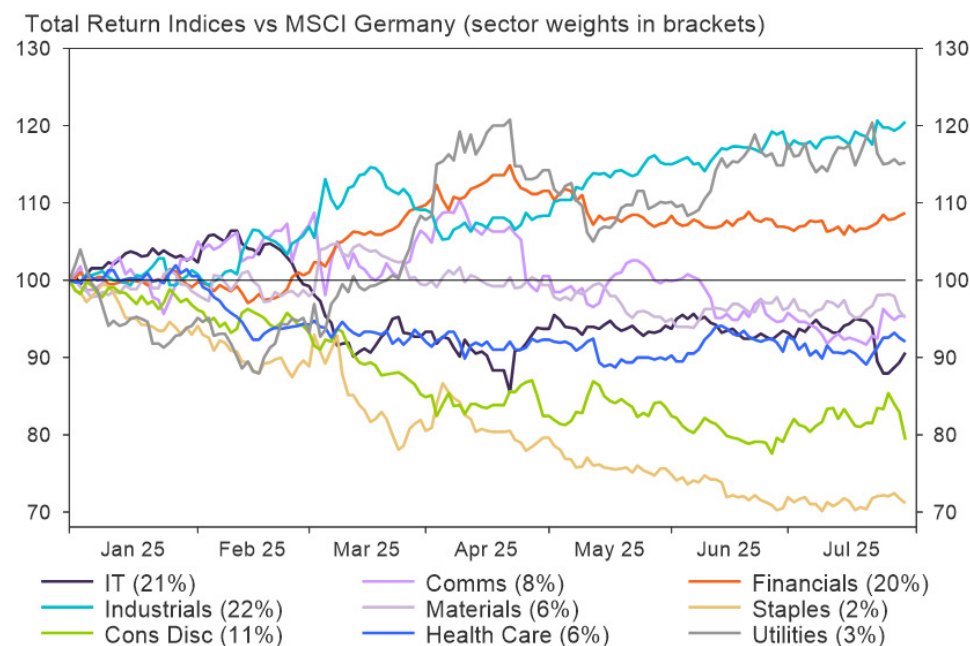
Europe's returns remain the highest across DM

With Europe's MSCI-based returns running at 25% YTD, for almost three months now, there may not be significant additional upside still to come (see Figure 5). Investors will be quite happy to 'lock-in' gains as Europe benefits from export demand across Asia and the US, especially for higher-value added goods and services.

EMU real GDP growth is strong (2.3%p.a Q125), driven by industrial production and sustained consumption growth. This is reflected in the key sources of alpha for investors, across Industrials, Financials, and Utilities – which is almost half the market and all part of the positive sentiment surrounding Germany's infrastructure stimulus and productivity rebuild (see Figure 9). What also appears to have contributed to the significant re-rating of equity returns across Europe, given that earnings growth is still very weak, is that monetary conditions are very supportive¹⁸.

Figure 9: Sources of alpha for investors across Germany

Sources of Alpha across MSCI Germany



Source: LSEG Datastream, July 2025.

18. Liquidity growth is robust and the ECB's policy interest rate is close to the neighbourhood of neutral. Since its inception, the ECB has achieved its 2% inflation objective on average with a 1.75% policy rate i.e the ECB main refinancing operations (fixed-rate) - which is 2.15% currently. Such loose policy is vastly different to the US where the Fed judges its neutral policy rate as 3% and its Fed Funds rate is 150bps above that. Source: LSEG, 29 July 2025.

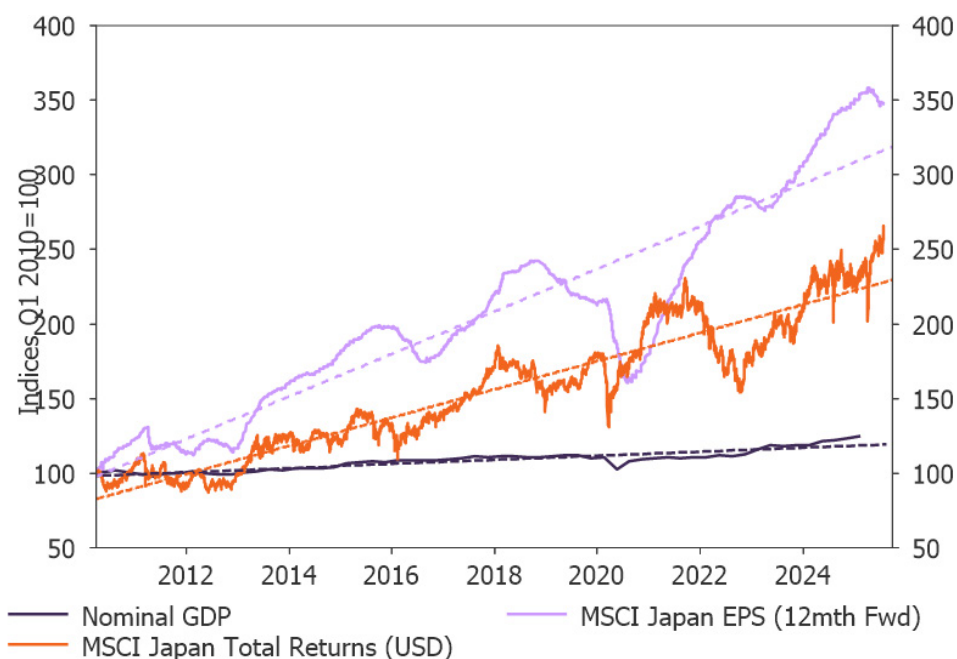
We expect positive contributions to DM equity returns to continue from Japan

Equity returns from Japan continue to perform well (see Figure 5) because of robust productivity performance (that is second only to the US¹⁹) and significant competitiveness supporting earnings (which is much more important than GDP performance, see Figure 10). Key sources of alpha for investors remain Financials, Communications, Industrials, Utilities and Real-estate.

Strong competitiveness continues to unfold as Japan gets further traction on its disinflation process, led by weaker producer price inflation, and as nominal wage fears proved over-blown (see Figure 11). What may become an additional tailwind for equity returns going forward is that Japan's interest rates may not have strong pressures to rise a lot further. Japan's CPI inflation could be back around the Bank of Japan's (BoJ) 2% p.a.²⁰ target by early 2026 without significant stress (and perhaps surprisingly faster than the US).

Figure 10: Japan's robust trends in earnings and equity returns are productivity driven

Japan GDP, MSCI Equity Returns and Earnings



Source: LSEG Datastream, July 2025.

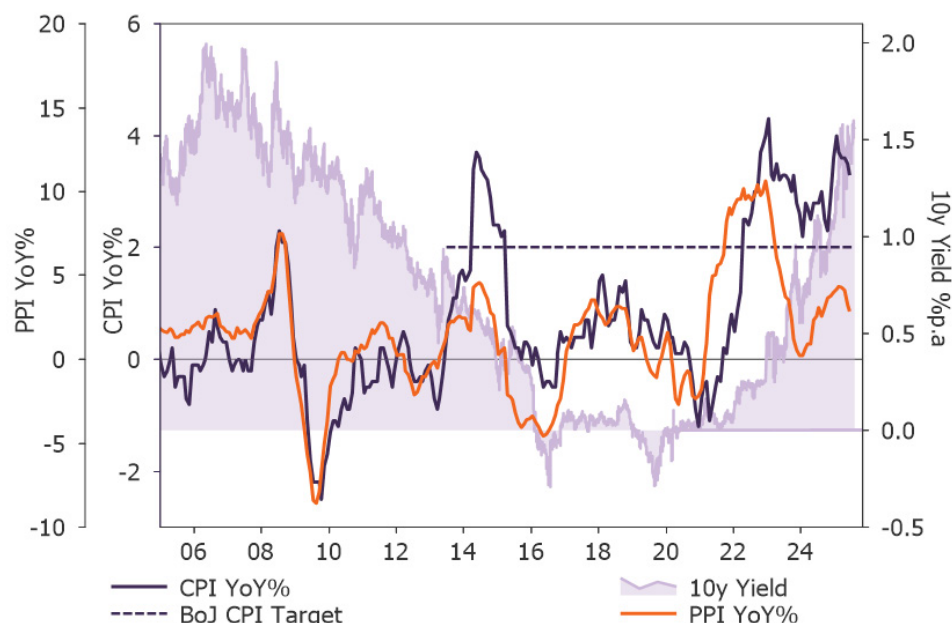
19. Source: LSEG 29 July 2025.

20. [Bank of Japan "Price Stability Target" under the Framework for the Conduct of Monetary Policy.](#)

Given the latest political shifts²¹ policymakers do have the fiscal headroom if they wish to consider stimulus. However, such support is not required yet as Japan's growth in Q1 2025 was robust (5.1% YoY nominal, 1.7% p.a real²²), driven by consumption and investment, which has surprised the Consensus on the upside.

Figure 11: Japan's disinflation is unfolding

Japan Yield and Inflation



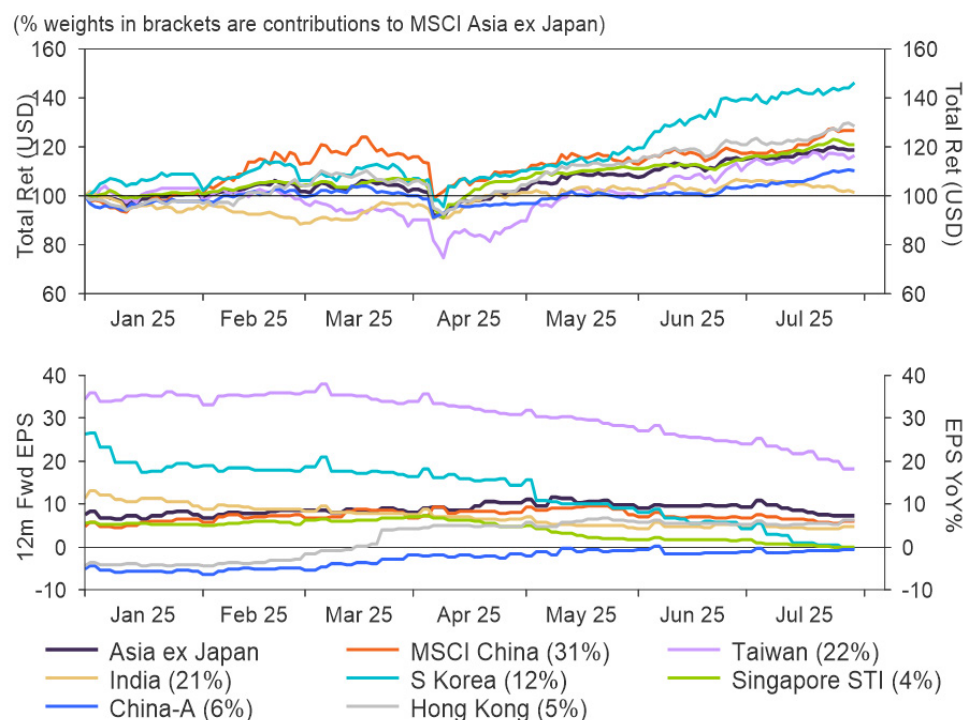
Source: LSEG Datastream, July 2025.

21. Japanese Prime Minister Shigeru Ishiba is expected to announce his resignation by end August 2025, following the July election defeat (that cost his administration its upper house majority). His departure, less than a year after taking office, could trigger a succession battle within the ruling Liberal Democratic party. Source: 23 July 2025 Reuters News.

22. Source: LSEG Datastream, July 2025.

We have a bullish outlook for Asia ex Japan equities, where most markets can make significant contributions

Figure 12: Equity returns and 12mth forward earnings growth expectations for Asia MSCI Asia ex Japan Equity Returns and Earnings (YTD)



Source: LSEG Datastream, July 2025.

Asia (ex-Japan) returns are tracking in the neighbourhood of 20% YTD (see Figure 12), and the region should continue to benefit from global demand, higher export prices, and rising competitiveness. Equity returns from MSCI China continue to lead, tracking above 20% YTD, and China-A equities are rebuilding. Importantly, alpha from China's equity market is broad and being driven by IT, Communications, Financials, Healthcare, Materials (5 sectors across more than half of the market. See Figure 13).

What is also proving very positive for the profitability of China's exporting companies is that in 2025 they are defending global market share (and gaining market share in Europe and in Asia), selling at higher (export) prices than last year (see Figure 14), and have deflation in their local production costs (i.e producer prices are falling. See Figure 14). Not surprisingly, China now has the highest degree of export competitiveness in the world – as its real (inflation-adjusted) exchange rate is very low (see Figure 24)

Figure 13: Sources of alpha for investors across China

Sources of Alpha across MSCI China

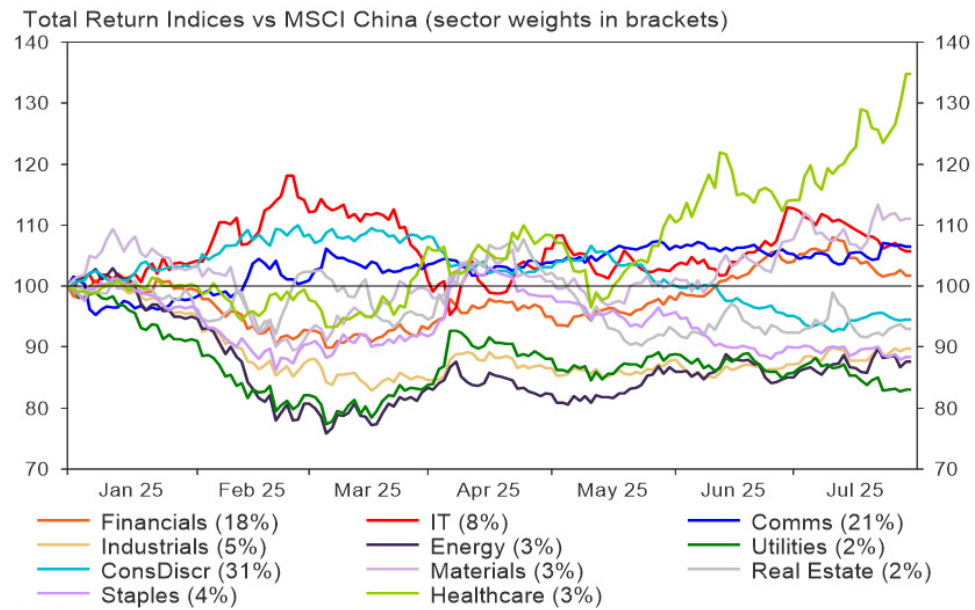
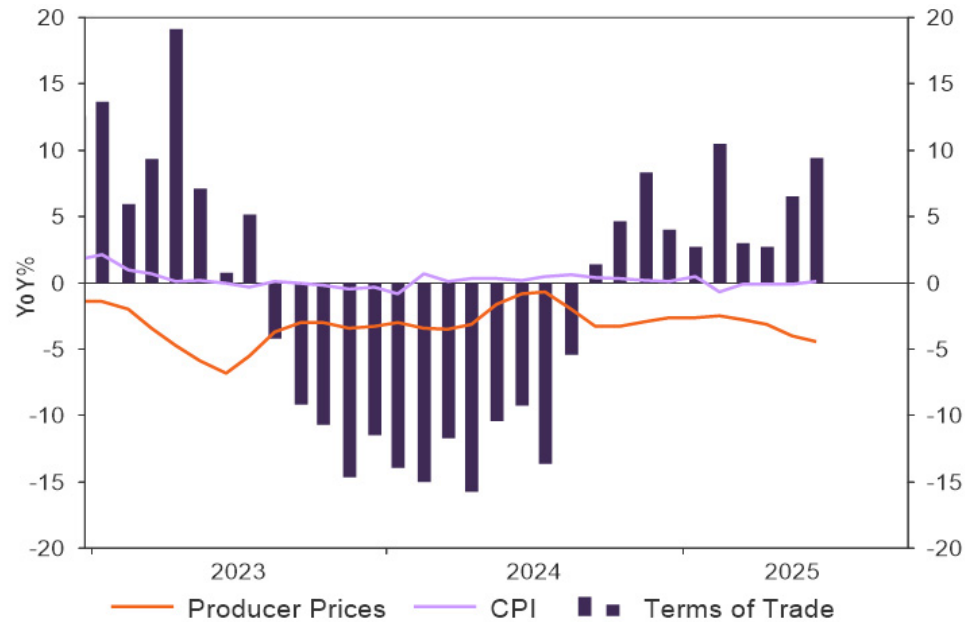


Figure 14: China is gaining from rising export prices and falling costs (PPI)

China Inflation Metrics

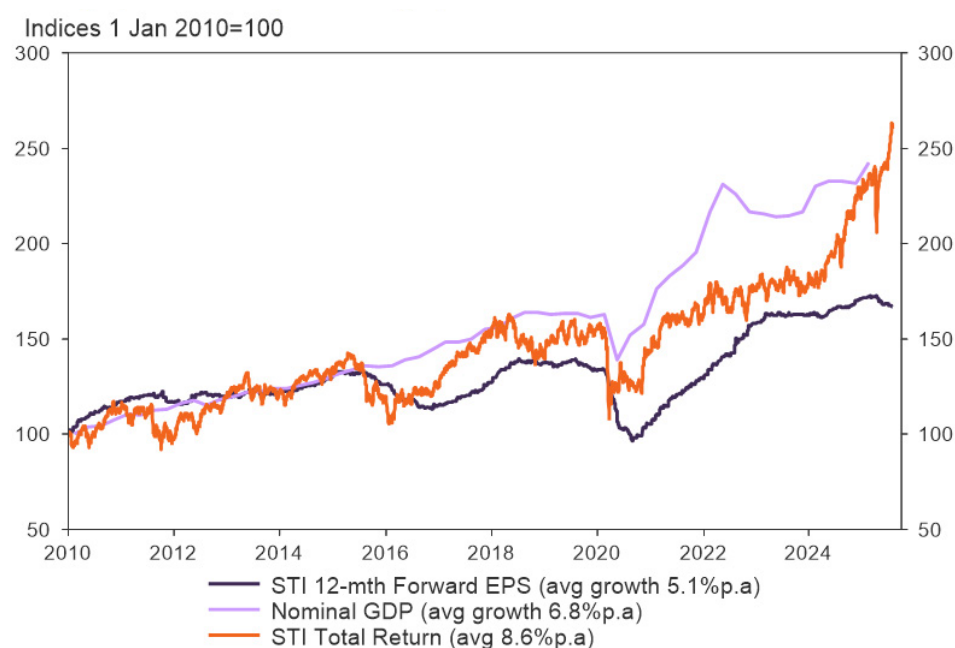


We are bullish on Singapore equities, and excited about the EQDP!

Fullerton has a bullish outlook for Singapore equities as we believe that Singapore's macro performance can trigger sustainably stronger earnings performance than investors appreciate (i.e the wide gap of GDP growth over EPS growth may not be sustained. See Figure 15). The STI equity market is already 'pricing-in' a significant re-rating as it adjusts to this potentially higher profitability paradigm.

Figure 15: Singapore's fundamentals of GDP and earnings with equity returns

Singapore GDP, Earnings, and Returns



Source: LSEG Datastream, July 2025.

Singapore's earnings growth should continue to improve because of very low cost pressures (reflecting productivity gains and low inflation), and with higher revenues over time as Singapore benefits from the global demand/industrial boom for high-value added outputs - especially capital goods (where alpha is surging from these sectors already).

Fullerton is honoured to have been selected as one of the fund managers to support the MAS' Equity Market Development Programme (EQDP) that over time should further boost sentiment, liquidity, and capital inflows across Singapore's equity market²³.

Returns from Taiwan have rebounded strongly since the April low, and even as its earnings growth expectations continue to slow back to more sustainable rates (see Figure 12, bottom panel) performance should remain supported by global IT demand and capital goods. South Korea's equities have surged from the poor performance last year (see Figure 12), as its corporates benefit from the same positive re-rating drivers across Asia (i.e competitiveness gains and rising external demand).

In sum, as we have emphasised for a while, this is a global goldilocks environment where many key markets are doing well – delivering 'a great global convergence'.

23. See [CNA 21 July 2025: MAS appoints three asset managers to support Singapore stock market](#)



03

Fixed Income



Angus Hui
Deputy CIO &
Head of Fixed Income
Fullerton Fund Management

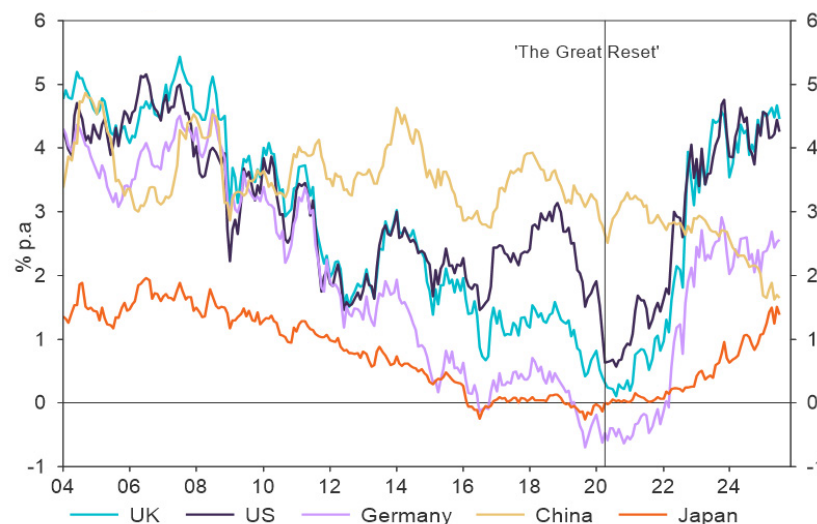
Across the key fixed-income risk assets that investors typically hold, returns so far in 2025²⁴ have been high single-digits - led by Asia (local-currency) corporate credit, followed by Asia (USD) credits and Investment Grade (IG), and then US treasuries. Singapore's fixed income returns have been especially strong²⁵, benefiting from plentiful liquidity and capital inflows that have bid-up returns (and have also driven Singapore's equity returns higher).

Sustainably higher yields can remain very positive for investors

Our core investment theme remains 'the Great Reset'²⁶ where this Realpolitik world results in the 'discount factor' for all risk asset returns – the bond yield – repricing higher toward levels not seen since before the GFC 2008/09 (See Figure 16).

Figure 16: Key bond yields are around highs not seen in 15 years

Global 10y Bond Yields



Source: LSEG Datastream, July 2025.

24. Returns source: Asia (LC) corporate credit (iBoxx, 8.1% YTD), Asia (USD) corporate credit (JACI, 4.1% YTD), and 3.8% YTD from JACI Investment Grade (IG), US treasuries (3.8% YTD). Singapore government bond returns (7.6% YTD) and corporate credits (6.3% YTD). LSEG as at 25 July 2025.

25. Also see our November 2024 publication - [The 5 Myths of the SGD credit markets debunked - Fullerton Fund Management](#) - for a deeper-dive into why the Singapore (SGD) credit market can be a valuable source of alpha for global investors.

26. See: [Investing in a 3G environment - Fullerton Fund Management](#)

Such yields are higher than many investors are accustomed to, but they can be rewarding and may be a fairer reflection of the risks associated with leverage and geopolitical uncertainties.

With China's significant monetary and fiscal stimulus unfolding it may have established a 'defendable floor' for its 10y yield, but any increases in yield over time may be gradual as policymakers do not want any headwinds for credit demand (as they seek to boost consumption and investment). It also remains very important for China's policymakers to balance any degree of currency weakness that they may want, especially if there is further downside to come for the US dollar.

We remain positive on global sovereign bonds and IG corporate credit

Our positive view for returns from global sovereign bonds reflects current trends continuing, along with the likelihood that yields settle at levels generating a favourable income-stream, as well as offering some protection if equities fall sharply. The risk of the latter may remain the most conditional on avoiding adverse geopolitical events, but what is encouraging is that investors seem to be becoming better at navigating such shocks²⁷.

The weaker US dollar can also be supportive for investors in local currency fixed-income

In 2025 US liquidity has been the highest across Developed Markets and this 'excess supply' of dollars has depreciated its value (see Figure 17).

A weak US dollar can allow global central banks, especially across Asia (where inflation is low) to run easier policy than otherwise (and to offset any excessive local-currency appreciation forces) which can reduce interest rates (vis-à-vis increase bond prices – see Figure 18) and boost growth.

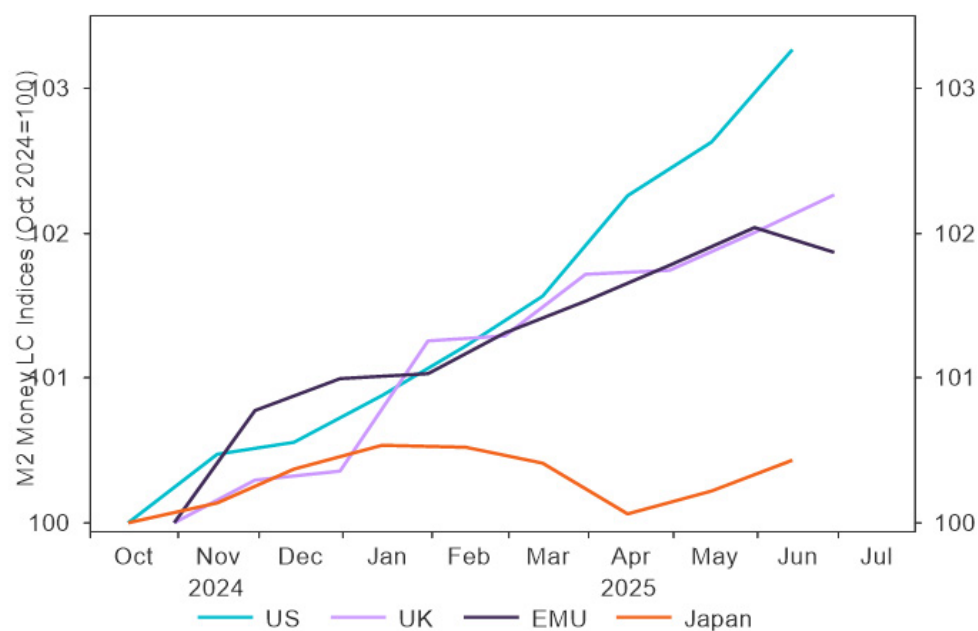
We maintain our positive outlook for corporate credit across Asia, as default rates can remain modest with global growth holding around trend, coupled with robust profitability and liquidity²⁸.

27. For example, in late June the Geopolitical Risk Index hit 582 for the Middle East conflict (on par with Russia's invasion of Ukraine, Q1 2022) before falling back to 200, and at the same time the demand for downside protection temporarily surged but the US equity (VIX) 'fear index' was contained in the low 20s, before falling lower. Source: LSEG July 2025 and the global daily geopolitical shock index from Caldara and Iacoviello, 3 July 2025. See also: [Middle East conflict – contained for now - Fullerton Fund Management](#)

28. See [Asian Local Currency Bond Outlook - Fullerton Fund Management](#) for greater detail on our positive investment outlook.

Figure 17: Liquidity growth has been very supportive to risk asset returns and has also depressed the US dollar

DM Liquidity

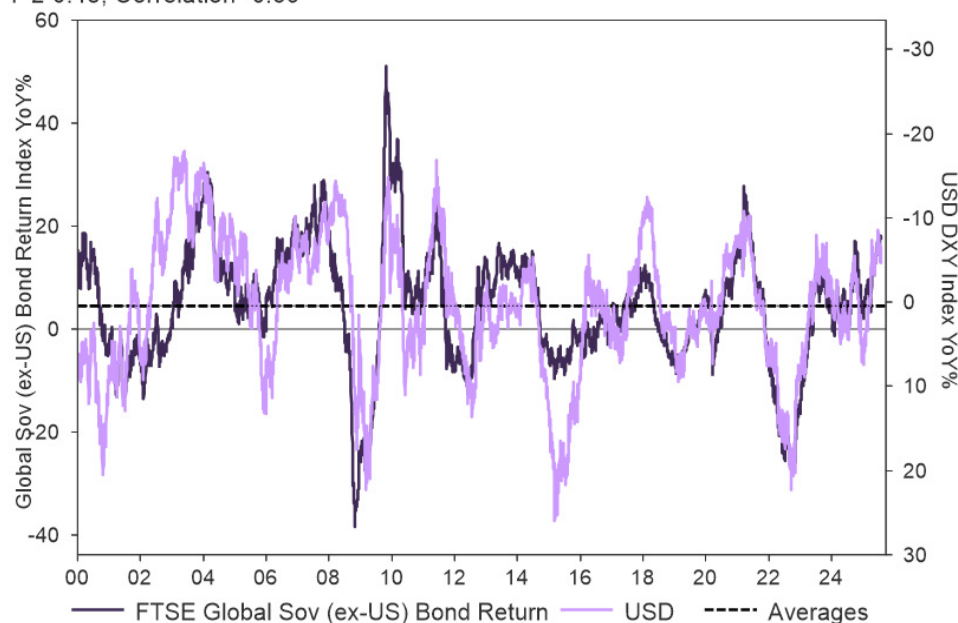


Source: LSEG Datastream, July 2025.

Figure 18: A weaker US dollar correlates with stronger bond returns for the rest of the world

Global Bond Returns with the USD

r^2 0.48, Correlation -0.69



Source: LSEG Datastream, July 2025.

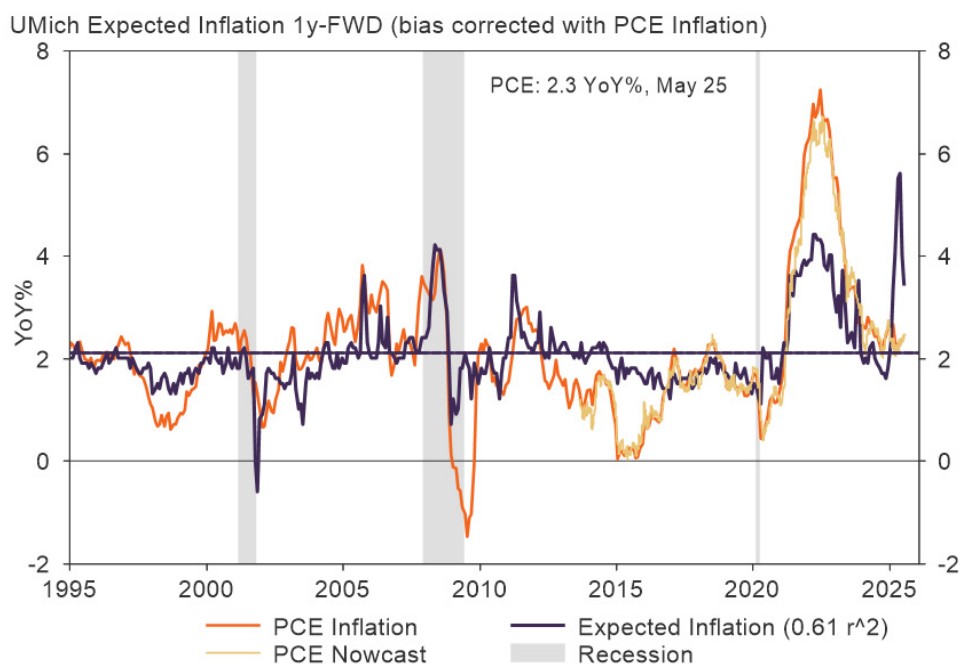
US inflation is likely to rise further this year as tariff impacts bite, but not to levels that become a sustained threat to markets.

The US maintains one of the strongest productivity performances in the world, while its real unit production costs are falling, which gives significant cushion against any renewed inflation pressures.

We expect that tariff impacts will boost US inflation, but not to highs that would significantly stress markets or the Fed - which has maintained its view that rate cuts can gradually unfold over time even though US inflation may not be back at target until early 2027. In line with the Fed's outlook, forward-looking market-based inflation expectations suggest US inflation could jump to at least 3%p.a before falling back. What is most encouraging is that US households, that were extremely fearful that inflation was surging, are now correcting their outlook down (See Figure 19).

Figure 19: US household inflation expectations

University of Michigan Consumer Expected Inflation



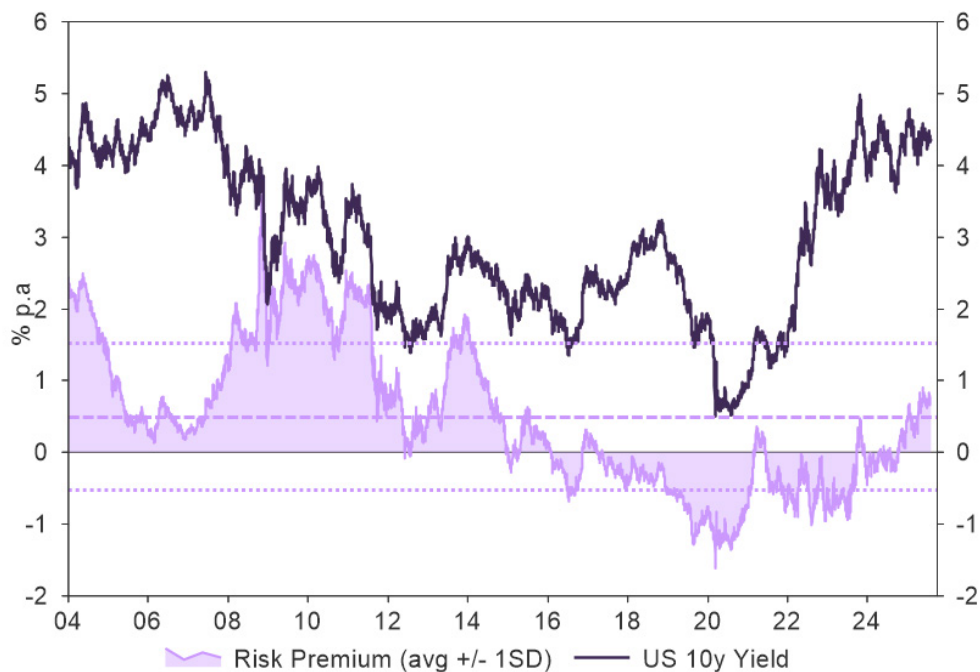
Source: LSEG Datastream, July 2025.

The US fiscal stimulus may not stress bond markets too much

While President Trump's 'Big Beautiful' Bill (4 July 2025) is a significant net stimulus the US fiscal deficit can still fall over time if improved corporate profitability increases fiscal revenue sufficiently. This prospect may be one reason why the US treasury risk premium is holding below 1%pts (see Figure 20), as global investors appreciate that increasing government debt is not a problem for the US alone.

Figure 20: US 10y yield and the bond risk premium

US 10y Yield and Bond Risk Premium

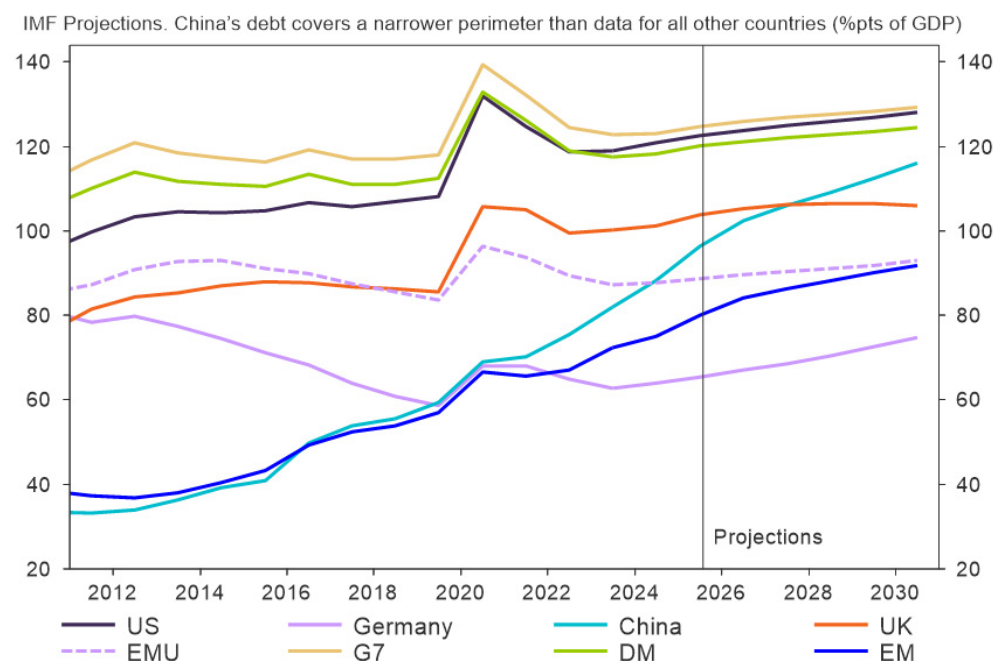


Source: LSEG Datastream, July 2025.

Rising government debt is a global trend (see Figure 21), and yields are already significantly higher than the past for many DM countries without proving too stressful for economic activity.

Figure 21: Trends in government debt across DM and EM

General Government Gross Debt



Source: LSEG Datastream, July 2025.

Alternative risk assets continue to gain acceptance, which can be positive for diversification and liquidity

Favourable developments across crypto-currencies can also be positive for investors across all asset classes because of liquidity spillovers. For example, more crypto transactions and positive sentiment are already contributing to US liquidity growth - which has been among the strongest across DM since Q424 (see Figure 17).

Hong Kong has passed its Stablecoins Ordinance Bill (May) which creates a robust regulation, disclosure and licensing regime for stablecoin issuers. Singapore shifted almost two years earlier with the MAS' Regulatory Framework for Stablecoins adopted in Aug 2023. In the US there is now the GENIUS Act (July) that sets consumer protections for stablecoins²⁹. Beyond all these developments, another exciting shift for investors and asset managers is that President Trump is considering an Executive Order that would open-up the US retirement asset-management market (via 401k investors) to alternative investments including crypto³⁰.

29. See [Fact Sheet: President Donald J. Trump Signs GENIUS Act into Law – The White House](#)

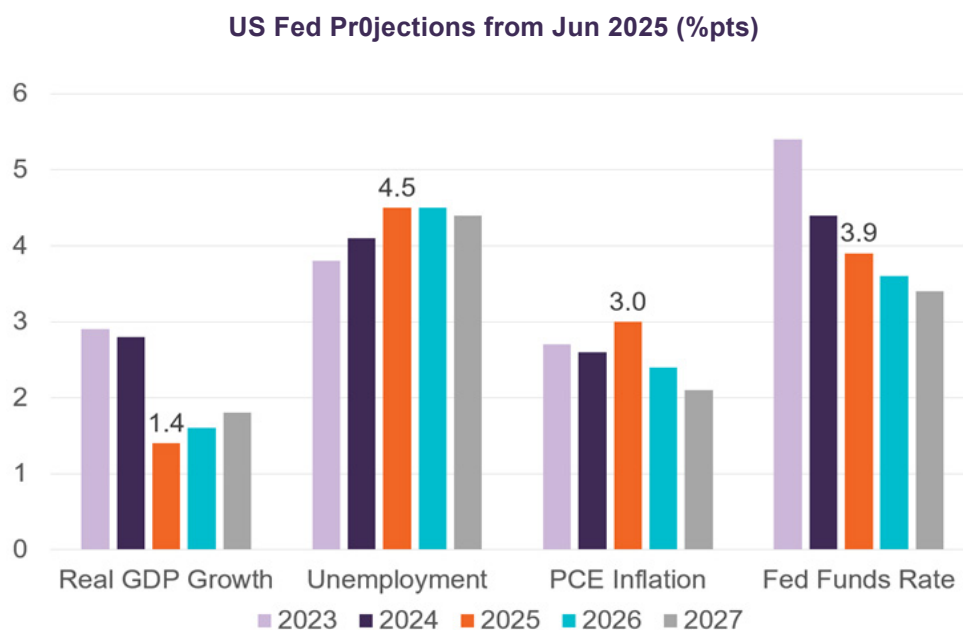
30. Source: 15 July 2025, Reuters News.

The US forward market still believes the Fed is 'behind the curve'

In contrast to the Fed's outlook, the US forward-market expects that the US policy rate will almost be back at the Fed's assumed long-term 3% rate by Q4 2026³¹. That supports the notion that if US growth unfolds as weak as the Fed expects – sub 2%p.a for the next three consecutive years (see Figure 22) - then the Fed should cut its policy rate much faster. Critics of the Fed's policy have argued that the Fed's rate cuts (the last being 50bps in September, 25 bps in November and in December 2024) are now lagging too much given the Fed's outlook for inflation and growth.

On the other hand, supporters of the Fed argue that US government policy actions, especially the tariffs, have created too much uncertainty and therefore the Fed should remain on hold because inflation could shock significantly. If the Fed sticks to its June macro outlook then it is likely to cut by 25bps in September and again in December (because this FOMC has shown a strong preference to only adjust rates when it is also presenting its updated quarterly forecasts). The latest US forward-market pricing agrees, with a 3.9% Fed Funds rate by end 2025³².

Figure 22: The Fed's June outlook: below 2% US growth for 3 years, inflation back to target in early 2027, and the policy rate back at the Fed's long-run assumption 3% in 2028



Source: FOMC, 18 June 2025.

31. The market expects 3.2% by Oct 2026 (as at 30 July 2025. Source: LSEG). In contrast, the Fed forecasts its policy rate for 2027 at 3.4%, and 3% may not be reached until beyond the Fed's published forecast horizon in 2028.

32. Source: LSEG as at 30 July 2025.

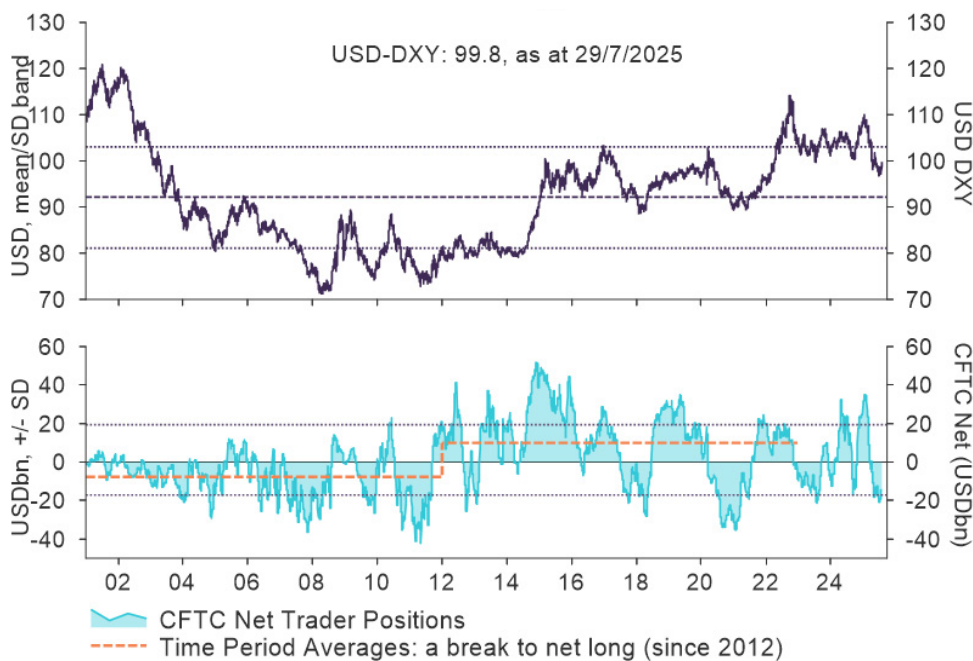
The weak US dollar may stabilise

Since the US dollar (DXY index) reached its peak late last year, US liquidity has been the highest across Developed Markets and this 'excess supply' of dollars has seen the value of the greenback slide (see Figure 17). So-called de-dollarisation forces may continue where foreign investors diversify further away from US risk assets independently of how the US dollar may unfold³³.

Pressure for additional US dollar depreciation may fade as significant downside risk is already 'priced-in' via investor positioning (see Figure 23), and the US dollar is now close to its inflation-adjusted 'fair-value' (see Figure 24). Furthermore, global fund manager surveys signal that investors are still significantly underweight US equities so when capital flows back the US dollar can be bid higher³⁴. Lastly, since 2022 as the US became the third-largest oil exporter in the world (behind Saudi Arabia and Russia) this structural change in currency dynamics may imply that the US dollar cannot depreciate too far below oil prices (see Figure 25).

Figure 23: the US dollar (DXY index) and investor positioning

USD DXY and Investor Positioning

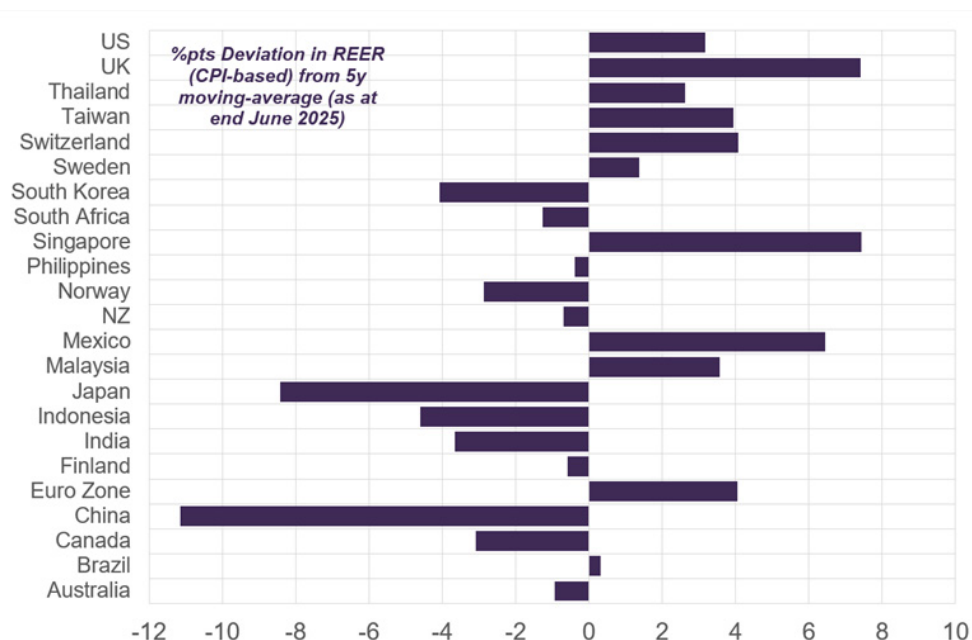


Source: LSEG Datastream, July 2025.

33. For example, since 2012 foreign holdings of US treasuries have fallen from a 35% share (of total US debt) to a 24% stake, while the US dollar (DXY Index) appreciated 2.5%p.a (on average). Source: LSEG 30 July 2025.

34. Source: BoA GFMS 15 July 2025

Figure 24: Currency valuations (%pts under/over-valued)

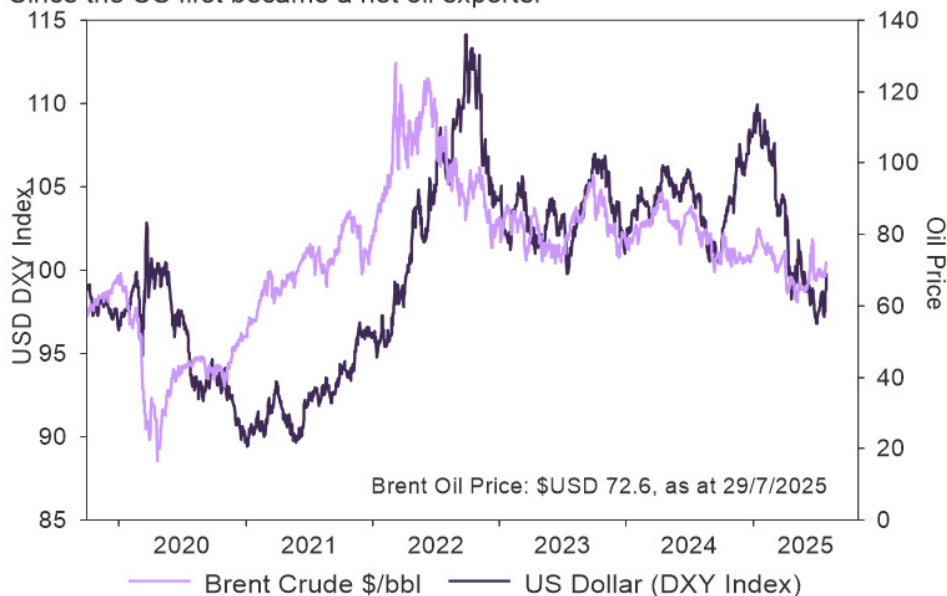


Source: FFMF calculations. LSEG, BIS, July 2025. This is the %pts deviation in the real exchange rate (REER, CPI-based) from its trend (a 5y moving-average)

Figure 25: the US dollar (DXY index) and oil prices

USD DXY and Oil Prices

Since the US first became a net oil exporter



Source: LSEG Datastream, July 2025.

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